

Message Text

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PAGE 01 REYKJA 01077 171334Z
ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
EB-08 COME-00 TRSE-00 OMB-01 SIL-01 LAB-04 ACDA-12
/092 W

-----120582 171405Z /47

P R 171200Z AUG 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC PRIORITY 8640
INFO AMEMBASSY COPENHAGEN
AMEMBASSY OSLO
COMICEDEFOR KEFLAVIK IC
USMISSION USNATO

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E.O. 11652: N/A
TAGS: PINT, IC
SUBJECT: PRESSURE FOR GOVERNMENT FORMATION STARTING TO BUILD

REF: REYKJAVIK 1054 (NOTAL)

1. FOR WEEKS POLITICAL PARTIES HAVE ATTEMPTED TO FORM NEW GOVERNMENT WITH INDULGENCE OF PUBLIC WHICH HAS BEEN WILLING TO GIVE POLITICIANS A CHANCE. HOWEVER, WITH FAILURES BY SDP AND IP TO FORM COALITIONS THERE ARE SIGNS THAT PUBLIC PATIENCE IS WEARING THIN AND THAT PRESSURES ARE GROWING ON POLITICIANS TO RESOLVE POLITICAL CRISIS FORM NEW GOVERNMENT AND GET ON WITH TASK OF DEALING WITH COUNTRY'S URGENT ECONOMIC PROBLEMS.

2. ON SEPTEMBER 1, INCREASES ON WAGES AND AGRICULTURAL PRICES WILL AUTOMATICALLY GO INTO EFFECT. ALSO ON THAT DATE, FISH FREEZING PLANT OPERATORS WILL BEGIN NEGOTIATING WITH TRAWLER OWNERS RENEW FISH PRICES WHICH WILL HAVE MAJOR
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IMPACT
ON VIABILITY OF FISHING INDUSTRY AND ON NATIONAL ECONOMY. AS REPORTED REFTTEL, SOME FREEZING PLANTS HAVE ALREADY CLOSED. OTHERS IN REYKJAVIK AND SOUTHWEST HAVE THREATENED TO DO SO ON SEPTEMBER 1. THESE LATTER PLANTS HAVE NOW BEEN JOINED BY THOSE IN BOTH EASTERN AND WESTERN PARTS OF COUNTRY WHICH HAVE DECLARED THEY WILL ALSO STOP OPERA-

TIONS ON SEPTEMBER 1 UNLESS MEANS ARE FOUND TO GET THEM OUT OF THEIR FINANCIAL BIND. CLOSING OF THESE PLANTS WOULD ADD 2000 TO NUMBER OF UNEMPLOYED (3000) PROJECTED REFTEL.

3. ACCORDING TO ONE WELL-PLACED SOURCE, ANY NEW GOVERNMENT WILL NEED AT LEAST A WEEK TO WORK OUT ITS WAGE-PRICE POLICY. SOURCE FELT THAT IF NEXT GOVERNMENT WERE NOT IN PLACE FAR ENOUGH IN ADVANCE OF SEPTEMBER 1 DEADLINE, IT MUST BE PREPARED TO SEE INCREASES GO INTO EFFECT BY DEFAULT OR LEAVE ANY DECISIONS WITH RESPECT TO THEM TO PRESENT LAME DUCK GOVERNMENT. AWARENESS OF DEADLINE WILL ADD TO PRESSURES ON CURRENT ROUND OF TALKS.

4. PRESS HAS BEEN LEADING CALLS FOR GOVERNMENT FORMATION. POPULAR MP HAS WRITTEN LONG, OFT-QUOTED COMMENTARY ON THE POLITICIANS' LACK OF SERIOUS ACTION, CHARGING THAT THEY HAVE BEEN FIDDLING WHILE ROME BURN. EDITORIAL IN NATION'S LARGEST DAILY HAS PICKED UP THEME, AND OTHER COMMENTARIES HAVE LIKENED DEVELOPMENTS TO "FARCE" OR "CIRCUS." WHEN QUESTIONED ON GOVERNMENT FORMATION, MAN-IN-STREET CONSENSUS REPORTED BY PRESS APPEARS TO BE MOVING TOWARD POSITION THAT IT MATTERS LITTLE WHAT KIND OF COALITION IS FORMED SO LONG AS IT IS DONE QUICKLY.

5. PEOPLE'S ALLIANCE (PA) CHAIRMAN LUDVIK JOSEFSSON STARTING LIMITED OFFICIAL USE

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DISCUSSIONS TODAY WITH SOCIAL DEMOCRATS(SDP) AND PROGRESSIVES (PP). PP HAS WELCOMED OPPORTUNITY PARTICIPATE IN NEW NEGOTIATIONS SINCE PARTY'S INTEREST IN JOINING NEXT GOVERNMENT HAS INCREASED DURING TWO-MONTH PERIOD OF INDECISION. SDP CHAIRMAN BENEDIKT GRONDAL HAS EXPRESSED WILLINGNESS TO GIVE JOSEFSSON CHANCE TO FORM PA-SDP-PP GOVERNMENT WHICH GRONDAL HIMSELF COULD NOT PUT TOGETHER, BUT ONLY IF PA UNDERSTOOD IT COULD NOT HAVE FOREIGN MINISTRY. THIS IS REFLECTION OF SDP'S COMMITMENT, WHICH IT SHARES WITH INDEPENDENCE PARTY, TO NATO MEMBERSHIP FOR ICELAND AND TO CONTINUED PRESENCE OF ICELAND DEFENSE FORCE AS ESSENTIAL TO ICELAND'S SECURITY.

6. MEDIA HAVE NOTED THAT LOCAL POLITICAL DEVELOPMENTS HAVE BECOME INTERNATIONAL NEWS SINCE COMMUNIST-LED PA HAS BEEN GIVEN MANDATE TO BUILD COALITION. ICELANDERS HAVE PICKED UP REUTER AND AP REPORTS NOTING SILENCE FROM NATO HEADQUARTERS RE CURRENT SITUATION. WELL AWARE OF IMPLICATIONS FOR NATO, ICELANDERS OF CONSERVATIVE BENT APPRECIATE ABSENCE OF OFFICIAL COMMENTARY FROM ABROAD DURING THIS SENSITIVE PERIOD IN THEIR DOMESTIC AFFAIRS.
BLACE

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